

United Fuel Investments
Limited
and
Subsidiary Companies



Tenth Annual Report

March 31, 1938

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TENTH ANNUAL REPORT
OF THE DIRECTORS OF
UNITED FUEL INVESTMENTS LIMITED
FOR THE YEAR ENDED MARCH 31st, 1938

Hamilton, Ontario,

July 6th, 1938.

TO THE SHAREHOLDERS:

Your Directors present herewith the Tenth Annual Report of your Company covering the operations for the fiscal year ended March 31, 1938. Included in the report is the Consolidated Balance Sheet of the Company and its Subsidiaries as at March 31st, 1938, with the related Profit and Loss and Surplus Accounts showing the comparative figures for the corresponding period last year, and the Auditors' Report to the Shareholders.

Consolidated net profits for the year, after deducting interest on funded debt, depreciation and income taxes amounted to \$537,101.45 as compared with \$436,656.58 in the preceding year.

Provision for income taxes on the year's profits amounted to \$114,013.48 as compared with \$94,266.66 last year, and direct taxes of all companies (municipal, provincial and dominion) paid or provided for out of the year's profits amounted to \$185,495.33 as compared with \$165,413.98 last year.

OPERATIONS

The improvement in Net Profits as compared with the previous year has resulted from increased revenues from sales of gas and coke. The volume of coke produced was slightly higher and the quantity sold during the year was 4% greater than in the previous year.

The volume of gas sold increased approximately 5% but, due to the improvement in the average price obtained for large volume industrial sales, there was an increase of 13% in the value of total sales.

Revenues from the sale of other products of the coke plant were 6% greater than in the previous year.

The cost of coal used in the manufacture of coke increased during the year as the result of higher prices at the mines and increased rail transportation costs in the United States. Wages paid by both the Coke and Gas companies were somewhat higher in the latter part of the

UNITED FUEL INVESTMENTS LIMITED

year because of increased rates. Gas distribution, coke selling and general administration expenses increased somewhat but in a lesser proportion than the increase in sales.

CONSOLIDATED FINANCIAL POSITION

Net working capital increased by \$186,887 as a result of the year's operations as follows:

Net profit after provision for income taxes	\$537,101
<i>Add:</i> Credits to surplus adjusting prior years' profits	21,198
Charges against earnings which do not require a cash outlay:	
Depreciation	223,300
Amortization of bond discount	23,157
	\$804,756
<i>Deduct:</i> Provision out of surplus for reorganization expenses and contingencies	75,000
	\$729,756

Disposition of funds:

Cost of additions to fixed assets (net)	\$ 58,243
Purchase of \$116,000 of companies' bonds for sinking funds	117,266
Increase in funds on deposit with trustee	254
Increase in deferred charges less decrease in stores and spare equipment	7,106
Dividends paid	360,000
	542,869

Increase in net working capital \$186,887

The net increase in fixed assets after deducting plant replaced and written off, amounted to \$50,329.85 and the increase in the reserve for depreciation and renewals amounted to \$215,386.59.

Funded debt has been reduced \$116,000 by retirements through sinking funds and bonds purchased in anticipation of sinking fund requirements as follows:

COKE COMPANY

First Mortgage Bonds	\$ 52,500
General Mortgage Bonds	19,500

UNITED GAS

First Mortgage 5½% Bonds	44,000
	\$116,000

UNITED FUEL INVESTMENTS LIMITED

Dividends of \$360,000 were paid during the year consisting of \$3 per preferred share paid on August 16, 1937, and \$1 per preferred share paid on December 15, 1937, and at April 1, 1938, the arrears on the preferred shares amounted to 36½%. A dividend of \$1 per preferred share was paid on May 2, 1938, and a further dividend of \$1 per preferred share has been declared on July 6, 1938, payable on September 1, 1938, to shareholders of record on August 15, 1938.

GENERAL

Increased costs of coal and transportation charges were in effect during part of the year, but fortunately these were more than offset by slightly better selling prices for both coke and gas, a higher yield of coke and increased sales of gas and coke. However, as a result of the severe decline in general business activities, there are at present very large accumulations of coke in the hands of other producers both in Canada and at United States border points. To meet competition from these sources as well as from unstable anthracite prices, coke is currently being sold at prices substantially less than at this time last year and profits of the current year are being adversely affected.

A letter was sent to all shareholders on January 17, 1938, advising them that in connection with a proposed plan of reorganization application was being made to the Corporation of the City of Hamilton for its consent to a proposed transaction with The Dominion Natural Gas Company, Limited, under the franchises held by the United Gas Company. This matter is still under consideration by the City and when the consent is given steps will be taken to obtain the requisite approval of the shareholders concerned, including the calling of special meetings of the preferred and common shareholders of your company for the purpose of considering the proposed plan of reorganization and the arrangement with The Dominion Natural Gas Company, Limited. Full details will be submitted to the shareholders with the notices calling the meetings.

Your directors again wish to record their appreciation of the loyal service of the officers and employees in the interests of the company.

On behalf of the Board of Directors,

S. A. MORSE,
President.

UNITED FUEL INVESTMENTS LIMITED

(Incorporated under the Dominion Companies Act)

AND ITS SUBSIDIARIES

HAMILTON BY-PRODUCT COKE OVENS LIMITED, UNITED GAS AND FUEL COMPANY
OF HAMILTON LIMITED, THE UNITED SUBURBAN GAS COMPANY LIMITED

Consolidated Statement of Profit and Loss for Year ended 31st March, 1938

	<u>31st March, 1938</u>	<u>31st March, 1937</u>
Profit from operations before charging depreciation or bond interest	\$1,178,702.42	\$1,048,681.01
<i>Deduct:</i>		
Interest on bonds	\$278,645.29	\$284,944.35
Bond and loan expenses and discount absorbed	25,642.27	304,101.67
	304,287.56	19,157.32
	\$ 874,414.86	\$ 744,579.34
Provision for depreciation on basis recommended by companies' consulting engineer	223,299.93	221,706.10
	\$ 651,114.93	\$ 522,873.24
Profits for year before provision for Dominion and Provincial income taxes	\$ 651,114.93	\$ 522,873.24

Note.—The expenses of the companies for the year ending 31st March, 1938, include:

Remuneration of directors (not including executive officers)	\$ 3,650.00
Payments to counsel, solicitors and legal advisers	10,600.00
Remuneration of executive officers	37,555.00

Consolidated Earned Surplus Account

Balance at 1st April, 1937		\$1,014,181.42
Profit for year as above	\$651,114.93	
<i>Less:</i> Provision for Dominion and Provincial income taxes	114,013.48	*537,101.45
Inventory overages re prior years		18,728.13
Over-provision for issue expense re 5% first mortgage bonds of Hamilton By-Product Coke Ovens Limited		2,469.42
		\$1,572,480.42
<i>Less:</i>		
Dividends of 4% paid on preference shares	\$360,000.00	
Provision for reorganization expenses and contingencies	75,000.00	435,000.00
	\$1,137,480.42	\$1,137,480.42

*Does not include profit on coal overage for year ending 31st March, 1938, which cannot be established till coal piles are used up.

UNITED FUEL INV

*(Incorporated under the
AND ITS*

HAMILTON BY-PRODUCT COKE OVENS
OF HAMILTON LIMITED, THE UNITED

Consolidated

31st

ASSETS	31st March 1938	31st March 1937
PROPERTY:		
Comprising gas and coke manufacturing plant, transmission lines, distribution systems, real estate, buildings, automobiles, fixtures, franchises, rights, organization expenses, interest during construction, etc.	\$ 9,877,355.25	\$ 9,828,025.40
Premiums paid on acquisition of subsidiary companies, etc.	6,379,954.68	6,378,954.68
	\$16,257,309.93	\$16,206,980.08
<i>The above assets are shown at their book values.</i>		
CURRENT AND WORKING ASSETS:		
Cash on hand and in banks	\$ 1,191,555.55	\$ 830,062.13
Accounts receivable less reserve.	378,617.11	468,655.14
Inventories—Coke and by-products valued at estimated cost and other inventories at the lower of cost or market as determined and certified by the management	549,358.06	605,808.02
	\$ 2,119,530.72	\$ 1,904,525.29
Cash on deposit with trustees for sinking funds	\$ 319.17	\$ 65.43
Bond discount	\$ 300,946.21	\$ 325,306.94
Deferred charges and prepaid expenses	92,754.89	83,605.27
Stores and spare equipment	64,962.53	65,781.48
	\$ 458,663.63	\$ 474,693.69
	\$18,835,823.45	\$18,586,264.49

AUDITORS' REPORT

We have audited the accounts of United Fuel Investments Limited, and its of Hamilton Limited and The United Suburban Gas Company Limited for the year have required. Depreciation provided is on a basis which has been approved by the consolidated balance sheet and statements of consolidated profit and loss and surplus affairs at 31st March, 1938, and of the consolidated results from operations for the shown by the books of the companies.

HAMILTON, CANADA,
28th May, 1938.

ESTMENTS LIMITED

Dominion Companies Act)

SUBSIDIARIES

LIMITED, UNITED GAS AND FUEL COMPANY
SUBURBAN GAS COMPANY LIMITED

Balance Sheet

March, 1938

LIABILITIES	31st March 1938	31st March 1937
CAPITAL:		
Authorized:		
250,000 6% cumulative preferred shares of \$100 each redeemable at the option of the company by call at \$110 per share		
250,000 common shares of no par value		
Issued:		
90,000 6% cumulative redeemable preferred shares of \$100 each	\$ 9,000,000.00	\$ 9,000,000.00
100,000 common shares of no par value	100,000.00	100,000.00
	<u>\$ 9,100,000.00</u>	<u>\$ 9,100,000.00</u>
Consolidated earned surplus	1,137,480.42	1,014,181.42
	<u>\$10,237,480.42</u>	<u>\$10,114,181.42</u>
Reserve for sinking fund	\$ 9,965.00	\$ 11,210.00
General mortgage 6½% bonds due 1st July, 1956	\$ 450,000.00	\$ 450,000.00
Hamilton By-Product Coke Ovens Limited:		
First mortgage 5% bonds due 1st November, 1955 (Series "A")	2,397,500.00	2,450,000.00
General mortgage 6% bonds due 1st April, 1956	712,000.00	731,500.00
United Gas and Fuel Company of Hamilton Limited:		
First mortgage 5½% bonds due 1st July, 1948	1,525,000.00	1,569,000.00
	<u>\$ 5,084,500.00</u>	<u>\$ 5,200,500.00</u>
CURRENT LIABILITIES:		
Accounts payable and sundry accrued charges	\$ 146,460.32	\$ 175,571.46
Meter deposits	14,155.93	13,179.08
Accrued interest on bonds	99,076.17	101,301.31
Provision for reorganization expenses and contingencies	41,832.80	—
Provision for Dominion income tax and other taxes	128,445.00	111,800.00
	<u>\$ 429,970.22</u>	<u>\$ 401,851.85</u>
RESERVE FOR DEPRECIATION AND RENEWALS	\$ 3,073,907.81	\$ 2,858,521.22
<i>Note.—Preferred dividends are in arrears to the extent of 36½%.</i>		
	<u>\$18,835,823.45</u>	<u>\$18,586,264.49</u>

Approved on behalf of the Board

S. A. MORSE, *Director.*

T. P. PINCKARD, *Director.*

TO THE SHAREHOLDERS

subsidiaries, Hamilton By-Product Coke Ovens Limited, United Gas and Fuel Company ended 31st March, 1938, and have received all the information and explanations we consulting engineer of the companies. We report that in our opinion the attached accounts correctly set forth a true and correct view of the state of the companies' year according to the best of our information and the explanations given us and as

CLARKSON, GORDON, DILWORTH AND NASH,
Chartered Accountants.

United Fuel Investments Limited

BOARD OF DIRECTORS

S. A. MORSE, *President*

ARTHUR F. WHITE, *Vice-President*

J. A. FRASER
J. M. PIGOTT

A. L. PAGE

T. P. PINCKARD
R. L. O'BRIAN

Hamilton By-Product Coke Ovens Limited

BOARD OF DIRECTORS

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T. P. PINCKARD
Vice-President and General Manager

A. V. YOUNG
N. S. BRADEN

W. L. DUFFIELD
Vice-President

J. P. BELL
W. H. LOVERING

United Gas and Fuel Company of Hamilton Limited

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JUDGE J. G. GAULD
Vice-President and Advisory Counsel

W. L. DUFFIELD, *Vice-President*
W. I. S. HENDRIE

T. P. PINCKARD
Vice-President and General Manager

A. L. PAGE
DR. W. G. THOMPSON

The United Suburban Gas Company Limited

BOARD OF DIRECTORS

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T. P. PINCKARD

JUDGE J. G. GAULD